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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

BOB STUMP - Chairman

GARY PIERCE

BRENDA BURNS

BOB BURNS

SUSAN BITTER SMITH

2014 APR 14 P 3:01

AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

IN THE MATTER OF THE APPLICATION OF
VERDE SANTA FE WASTEWATER CO., INC.
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANTS AND PROPERTY AND
FOR INCREASES IN ITS WASTEWATER
RATES AND CHARGES FOR UTILITY
SERVICE BASED THEREON.

DOCKET NO. SW-03437A-13-0292

**STAFF NOTICE OF FILING
SURREBUTTAL TESTIMONY**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission")
hereby files the Surrebuttal Testimony of Staff witness Crystal S. Brown in the above-captioned
matter.

RESPECTFULLY SUBMITTED this 14th day of April, 2014.

Robin R. Mitchell, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
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Original and thirteen (13) copies
of the foregoing filed this
14th day of April, 2014 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85006

Copy of the foregoing mailed and/or emailed
this 14th day of February, 2014 to:

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Arizona Corporation Commission

DOCKETED

APR 14 2014

DOCKETED BY

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. SW-03437A-13-0292
VERDE SANTA FE WASTEWATER CO., INC.,)
AN ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE OF ITS)
UTILITY PLANTS AND PROPERTY AND FOR)
INCREASES IN ITS WASTEWATER RATES AND)
CHARGES FOR UTILITY SERVICE BASED)
THEREON.)

SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 14, 2014

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EXECUTIVE SUMMARY
VERDE SANTA FE WASTEWATER CO., INC.
DOCKET NO. SW-03437A-13-0292

Staff's surrebuttal testimony responds to Verde Santa Fe Wastewater Company, Inc. ("Verde Santa Fe" or "Company") rebuttal testimony concerning the issue of sludge removal expense. Staff also elaborates on its recommended Reconnection Delinquent service charge.

Staff recommends a revenue increase of \$37,651 or 7.85 percent increase over test year revenue of \$479,551. The total annual revenue of \$517,202 produces an operating income of \$40,448 or a 9.60 percent rate of return on an original cost rate base of \$421,336.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Crystal S. Brown who filed direct testimony in this case?

A. Yes.

PURPOSE OF SURREBUTTAL TESTIMONY

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff, to the rebuttal testimony of Mr. Jason Williamson and Mr. Thomas Bourassa, witnesses for Verde Santa Fe Wastewater Company, Inc. ("Verde Santa Fe" or "Company").

Q. What issues will you address?

A. I will address the issue of sludge removal expense discussed in the rebuttal testimony of Mr. Bourassa and Mr. Williamson. I will also provide additional information regarding Staff's recommended Reconnection Delinquent service charge.

Q. Does your silence on any particular issue raised in the Company's rebuttal testimony indicate that Staff agrees with the Company's stated rebuttal position?

A. No. Rather, where I do not respond, I continue to rely on my direct testimony.

SUMMARY OF PROPOSED REVENUES

Q. Please summarize Staff's recommended revenue.

A. Staff recommends a revenue increase of \$37,651 or 7.85 percent increase over test year revenue of \$479,551. The total annual revenue of \$517,202 produces an operating income of \$40,448 or a 9.60 percent rate of return on an original cost rate base of \$421,336.

Q. How does Staff's recommended revenue compare to the recommended revenue in Staff's direct testimony?

A. Staff's recommended revenue has increased by \$12,251, from \$504,951 in its direct testimony to \$517,202 in this testimony.

RATE BASE

Q. What is Staff's recommended rate base?

A. Staff's recommended rate base is \$421,336 as shown on Surrebuttal Schedule CSB-3.

Q. How does Staff's recommended rate base compare to the recommended rate base in Staff's direct testimony?

A. Staff's recommended rate base is the same as the recommendation made in its direct testimony.

OPERATING INCOME

Operating Income Adjustment No. 2 – Sludge Removal Expense

Q. Did Staff review the Company's rebuttal testimony concerning sludge removal expense?

A. Yes.

1 **Q. Does Staff agree?**

2 A. Yes, and Staff has changed its schedules accordingly. Staff's adjustment to reflect the
3 additional \$12,079 in sludge removal expense is shown on Surrebuttal schedules CSB-6 and
4 CSB-8.

5
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends sludge removal expense of \$33,407 which is the same amount proposed by
8 the Company.

9
10 **Q. How does Staff's recommendation for sludge removal expense compare to the**
11 **recommendation for sludge removal expense in Staff's direct testimony?**

12 A. Staff's recommendation for sludge removal expense has increased by \$12,079, from \$21,328
13 in Staff's direct testimony to \$33,407 in its surrebuttal testimony.

14
15 **Operating Income Adjustment No. 5 – Income Taxes**

16 **Q. Did Staff make any adjustment to the income tax expense?**

17 A. Yes. Staff's adjustment reflects the income tax obligation on Staff's adjusted test year taxable
18 income.

19
20 **Q. What is Staff's recommendation?**

21 A. Staff recommends an income tax expense of \$2,826.

22
23 **Q. How does Staff's recommendation for income tax expense compare to the**
24 **recommendation for income tax expense in Staff's direct testimony?**

25 A. Staff's recommendation for income tax expense has decreased by \$2,480, from \$5,306 in
26 Staff's direct testimony to \$2,826 in Staff's surrebuttal testimony as shown on Surrebuttal
27 Schedule CSB-6.

SERVICE CHARGES

Q. What amount has the Company proposed for the Reconnection (Delinquent) service charge?

A. The Company has proposed \$30 which is the same as the Company's present rate.

Q. What is Staff's recommendation?

A. Staff recommends approval of a Reconnection (Delinquent) charge at cost with a foot note that defines cost as follows: Actual cost of physical disconnection and reconnection (if same customer) and there shall be no charge if there is no physical work performed.

Q. Why is Staff recommending a different charge?

A. Staff has learned from the Company that the Company does not actually disconnect customers. Rather, the Company places a lien against the customer's property and assesses late fees.

Q. Has the Commission adopted Staff's recommended Reconnection (Delinquent) charge in another rate proceeding?

A. Yes, the Commission, in Decision No. 72491, dated July 25, 2011, approved Staff's recommended Reconnection (Delinquent) charge in the rate proceeding for The Links at Coyote Wash Utilities.

Q. Does this conclude Staff's surrebuttal testimony?

A. Yes, it does.

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Surrebuttal Schedule CSB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 421,336	\$ 421,336
2	Adjusted Operating Income (Loss)	\$ (3,950)	\$ 10,944
3	Current Rate of Return (L2 / L1)	-0.94%	2.60%
4	Required Rate of Return	11.00%	9.60%
5	Required Operating Income (L4 * L1)	\$ 46,347	\$ 40,448
6	Operating Income Deficiency (L5 - L2)	\$ 50,297	\$ 29,504
7	Gross Revenue Conversion Factor	1.2966	1.2761
8	Required Revenue Increase (L7 * L6)	\$ 65,213	\$ 37,651
9	Adjusted Test Year Revenue	\$ 479,551	\$ 479,551
10	Proposed Annual Revenue (L8 + L9)	\$ 544,764	\$ 517,202
11	Required Increase in Revenue (%)	13.60%	7.85%

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.6362%			
5	Subtotal (L3 - L4)	78.3638%			
6	Revenue Conversion Factor (L1 / L5)	1.276099			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	20.5250%			
9	One Minus Combined Income Tax Rate (L7 - L8)	79.4750%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes	100.0000%			
13	Arizona State Income Tax Rate	6.5000%			
14	Federal Taxable Income (L12 - L13)	93.5000%			
15	Applicable Federal Income Tax Rate (Line 55)	15.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	14.0250%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		20.5250%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	20.5250%			
20	One Minus Combined Income Tax Rate (L18-L19)	79.4750%			
21	Property Tax Factor	1.3981%			
22	Effective Property Tax Factor (L20*L21)		1.1112%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			21.6362%	
24	Required Operating Income (Schedule CSB-1, Line 5)	\$ 40,448			
25	Adjusted Test Year Operating Income (Loss)	10,944			
26	Required Increase in Operating Income (L24 - L25)		\$ 29,504		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 10,446			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	2,826			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		7,620		
30	Recommended Revenue Requirement (Schedule CSB-1)	\$ 517,202			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue	\$ 20,641			
36	Property Tax on Test Year Revenue	20,114			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		526		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 37,651		
<u>Calculation of Income Tax:</u>					
39	Revenue	\$ 479,551	\$ 37,651	\$ 517,202	
40	Operating Expenses Excluding Income Taxes	\$ 465,781	\$ 526	\$ 466,307	
41	Synchronized Interest (L56)	\$ -		\$ -	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 13,770		\$ 50,894	
43	Arizona State Income Tax Rate	6.5000%		6.5000%	
44	Arizona Income Tax (L42 x L43)	\$ 895		\$ 3,308	
45	Federal Taxable Income (L42 - L44)	\$ 12,875		\$ 47,586	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 1,931		\$ 7,138	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -		\$ -	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ 1,931		\$ 7,138	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 2,826		\$ 10,446	
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			15.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base	\$ 421,336			
55	Weighted Average Cost of Debt				
56	Synchronized Interest (L45 X L46)	\$ -			

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Surrebuttal Schedule CSB-3

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 1,555,530	\$ -	\$ 1,555,530
2	Less: Accumulated Depreciation	658,177	-	658,177
3	Net Plant in Service	<u>\$ 897,353</u>	<u>\$ -</u>	<u>\$ 897,353</u>
<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ 978,305	\$ -	\$ 978,305
5	Less: Accumulated Amortization	502,287	-	502,287
6	Net CIAC	<u>476,018</u>	<u>-</u>	<u>\$ 476,018</u>
7	Advances in Aid of Construction (AIAC)	-	-	-
8	Customer Deposits	-	-	-
9	Deferred Income Tax Credits	-	-	-
<u>ADD:</u>				
9	Deferred Regulatory Assets	-	-	-
10	Cash Working Capital	-	-	-
11	Prepayments	-	-	-
12	Original Cost Rate Base	<u>\$ 421,336</u>	<u>\$ -</u>	<u>\$ 421,336</u>

References:

Column (A), Company Schedule B-1
Column (B): Schedule MEM-4
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.		[A]	[B]	[C]
			COMPANY AS FILED	Staff Adjustments	STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>					
1		DESCRIPTION			
2	351	Organization	\$ 30,909	\$ -	\$ 30,909
3	352	Franchises	-	-	-
4	353	Land and Land Rights	45,400	-	45,400
5	354	Structures and Improvements	108,242	-	108,242
6	355	Power Generation Equipment	-	-	-
7	360	Collection Services - Force	328,735	-	328,735
8	361	Collection Services - Gravity	-	-	-
9	362	Special Collecting Structures	-	-	-
10	363	Services to Customers	73,179	-	73,179
11	364	Flow Measuring Devices	12,958	-	12,958
12	365	Flow Measuring Installations	-	-	-
13	370	Receiving Wells	-	-	-
14	371	Effluent Pumping Equipment	-	-	-
15	380	Treatment and Disposal Equipment	865,491	-	865,491
16	381	Plant Sewers	-	-	-
17	382	Outfall Sewer Lines	-	-	-
18	389	Other Plant & Misc. Equipment	-	-	-
19	390	Office Furniture & Equipment	5,803	-	5,803
20	391	Transportation Equipment	-	-	-
21	393	Tools, Shop & Garage Equipment	4,676	-	4,676
22	394	Laboratory Equipment	630	-	630
23	395	Power Operated Equipment	-	-	-
24	396	Communication Equipment	-	-	-
25	398	Other Tangible Plant	79,507	-	79,507
26			-	-	-
27					
28		Total Plant in Service	\$ 1,555,530	\$ -	\$ 1,555,530
29		Less: Accumulated Depreciation	658,177	-	658,177
30			-	-	-
31		Net Plant in Service (L59 - L 60)	\$ 897,353	\$ -	\$ 897,353
32					
33		<u>LESS:</u>			
34		Contributions in Aid of Construction (CIAC)	\$ 978,305	\$ -	\$ 978,305
35		Less: Accumulated Amortization	502,287	-	502,287
36		Net CIAC (L25 - L26)	476,018	-	476,018
37		Advances in Aid of Construction (AIAC)	-	-	-
38		Customer Deposits	-	-	-
39		Deferred Income Taxes	-	-	-
40			-	-	-
41					
42		<u>ADD:</u>			
43		Deferred Reg Asset	-	-	-
44		Cash Working Capital	-	-	-
45		Prepayments	-	-	-
46		Original Cost Rate Base	\$ 421,336	\$ -	\$ 421,336

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>REVENUES:</u>						
2	Flat Rate Revenues	\$ 462,400	\$ -		\$ 462,400	\$ 37,651	\$ 500,051
3	Unmetered Revenues	7,527	-		7,527	-	7,527
4	Other Wastewater Revenues	9,624	-		9,624	-	9,624
6	Total Operating Revenues	\$ 479,551	\$ -		\$ 479,551	\$ 37,651	\$ 517,202
7							
8	<u>OPERATING EXPENSES:</u>						
9	Salaries and Wages	\$ 31,683	\$ (18,529)		\$ 13,154	\$ -	\$ 13,154
10	Purchased Wastewater Trmnt	-	-		-	-	-
11	Sludge Removal Expense	21,328	12,079		33,407	-	33,407
12	Purchased Power	36,970	-		36,970	-	36,970
13	Fuel for Power Production	-	-		-	-	-
14	Chemicals	13,584	-		13,584	-	13,584
15	Materials & Supplies	5,772	-		5,772	-	5,772
16	Contractual Services, Accounting	-	-		-	-	-
17	Contractual Services, Professional	5,130	-		5,130	-	5,130
18	Contractual Services, Maintenance	-	-		-	-	-
19	Contractual Services - Other	227,098	-		227,098	-	227,098
20	Water Testing	9,784	-		9,784	-	9,784
21	Rents	31,055	(11,256)		19,799	-	19,799
22	Transportation Expenses	4,103	-		4,103	-	4,103
23	Insurance - General Liability	5,108	-		5,108	-	5,108
24	Insurance - Health and Life	-	-		-	-	-
25	Reg Comm Expense - Other	2,355	-		2,355	-	2,355
26	Reg Comm Expense - Rate Case	25,000	-		25,000	-	25,000
27	Miscellaneous Expense	22,364	-		22,364	-	22,364
28	Bad Debt Expense	-	-		-	-	-
29	Depreciation and Amortization Expense	22,039	-		22,039	-	22,039
30	Taxes other than Income	-	-		-	-	-
31	Property Taxes	21,173	(1,059)		20,114	526	20,641
32	Income Taxes	(1,045)	3,871		2,826	7,620	10,446
33		-	-		-	-	-
34	Total Operating Expenses	\$ 483,501	\$ (14,894)		\$ 468,607	\$ 8,146	\$ 476,753
35	Operating Income (Loss)	\$ (3,950)	\$ 14,894		\$ 10,944	\$ 29,504	\$ 40,448

References:

Column (A): Company Schedule C-1
Column (B): Schedule MEM-13
Column (C): Column (A) + Column (B)
Column (D): Schedules MEM-1 and MEM-2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Salaries and Wages, Directors ADJ #1 Ref: Sch CSB-7	[C] Sludge Removal Expense ADJ #2 Ref: Sch CSB-8	[D] Rents Expense Verde Santa Fe Expansion ADJ #3 Ref: Sch CSB-9	[E] Property Tax Expense ADJ #4 Ref: Sch CSB-10	[F] Income Tax Expense ADJ #5 Ref: Sch CSB-11	[G] STAFF ADJUSTED
1	<u>REVENUES:</u>							
2	Fiat Rate Revenues	\$ 462,400	-	-	-	-	-	\$ 462,400
3	Unmetered Revenues	7,527	-	-	-	-	-	7,527
4	Other Wastewater Revenues	9,624	-	-	-	-	-	9,624
5	Total Operating Revenues	\$ 479,551	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 479,551
6								
7	<u>OPERATING EXPENSES:</u>							
8	Salaries and Wages	\$ 31,683	(18,529)	\$ -	\$ -	\$ -	\$ -	\$ 13,154
9	Purchased Wastewater Trmnt	-	-	-	-	-	-	-
10	Sludge Removal Expense	21,328	-	12,079	-	-	-	33,407
11	Purchased Power	36,970	-	-	-	-	-	36,970
12	Fuel for Power Production	-	-	-	-	-	-	-
13	Chemicals	13,584	-	-	-	-	-	13,584
14	Materials & Supplies	5,772	-	-	-	-	-	5,772
15	Contractual Services, Accounting	-	-	-	-	-	-	-
16	Contractual Services, Professional	5,130	-	-	-	-	-	5,130
17	Contractual Services, Maintenance	-	-	-	-	-	-	-
18	Contractual Services - Other	227,098	-	-	-	-	-	227,098
19	Water Testing	9,784	-	-	-	-	-	9,784
20	Rents	31,055	-	-	(11,256)	-	-	19,799
21	Transportation Expenses	4,103	-	-	-	-	-	4,103
22	Insurance - General Liability	5,108	-	-	-	-	-	5,108
23	Insurance - Health and Life	-	-	-	-	-	-	-
24	Reg Comm Expense - Other	2,355	-	-	-	-	-	2,355
25	Reg Comm Expense - Rate Case	25,000	-	-	-	-	-	25,000
26	Miscellaneous Expense	22,364	-	-	-	-	-	22,364
27	Bad Debt Expense	-	-	-	-	-	-	-
28	Depreciation and Amortization Expense	22,039	-	-	-	-	-	22,039
29	Taxes other than Income	-	-	-	-	(1,059)	-	-
30	Property Taxes	21,173	-	-	-	-	-	20,114
31	Income Taxes	(1,045)	-	-	-	-	3,871	2,826
32		-	-	-	-	-	-	-
33	Total Operating Expenses	\$ 483,501	\$ (18,529)	\$ 12,079	\$ (11,256)	\$ (1,059)	\$ 3,871	\$ 468,607
34	Operating Income (Loss)	\$ (3,950)	\$ 18,529	\$ (12,079)	\$ 11,256	\$ 1,059	\$ (3,871)	\$ 10,944

OPERATING INCOME ADJUSTMENT NO. 1 - SALARIES & WAGES, DIRECTORS

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Salaries & Wages, Directors	\$	31,683	\$	(18,529)	\$	13,154
2							
3							
4							
5							
6							
7		[D]		[E]		[F]	
8		Total Hours		Number of		Total Annual	
9		Worked per Month		Months Each		Hours Worked	
10	Employee	for All Directors		Director Works		for Each Director	
11	Director 1	8	x	12	=	96	
12	Director 2	8	x	12	=	96	
13	Director 3	8	x	12	=	96	
14		24		36		\$	288
15				Multiplied by		\$	46 From Line 20
16		Salaries & Wages, Directors - Per Staff				\$	13,154
17							
18				Director Salary		\$	95,000
19				Divided by Annual Work Hours			2,080
20				Hourly Rate		\$	45.67

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB,
- Column C: Column [A] + Column [B]

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Surrebuttal Schedule CSB-8

OPERATING INCOME ADJUSTMENT NO. 2 - SLUDGE REMOVAL EXPENSE

LINE NO.		[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Sludge Removal Expense	\$ 21,328	\$ 12,079	\$ 33,407

References:

Column A: Company Schedule C-1

Column B: Testimony, CSB,

Column C: Column [A] + Column [B]

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OPERATING INCOME ADJUSTMENT NO. 3 - RENTS EXPENSE, VERDE SANTA FE EXPANSION

LINE NO.				
		[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Rents Expense, Verde Santa Fe Expansion	\$ 31,055	\$ (11,256)	\$ 19,799

From Sch CSB-9, P.2

References:

Column A: Company Schedule C-1

Column B: Testimony, CSB,

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - RENTS EXPENSE, VERDE SANTA FE EXPANSION
CONTINUED

Loan Amount Requested	\$250,000		
Down Payment:	\$0		
Amount Financed:	\$250,000		
Number of years:	20	Compounding Periods:	12
Interest rate (r):	5.00%	APR:	5.12%

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning- of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$1,649.89	\$250,000.00	\$1,041.67	\$608.22	\$249,391.78			
2	1,649.89	249,391.78	1,039.13	610.76	248,781.02			
3	1,649.89	248,781.02	1,036.59	613.30	248,167.72			
4	1,649.89	248,167.72	1,034.03	615.86	247,551.86			
5	1,649.89	247,551.86	1,031.47	618.42	246,933.44			
6	1,649.89	246,933.44	1,028.89	621.00	246,312.44			
7	1,649.89	246,312.44	1,026.30	623.59	245,688.85			
8	1,649.89	245,688.85	1,023.70	626.19	245,062.66			
9	1,649.89	245,062.66	1,021.09	628.79	244,433.87			
10	1,649.89	244,433.87	1,018.47	631.41	243,802.45			
11	1,649.89	243,802.45	1,015.84	634.05	243,168.41			
12	1,649.89	243,168.41	1,013.20	636.69	242,531.72	12,330.39	7,468.28	19,798.67

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OPERATING INCOME ADJUSTMENT No. 4 - Property Tax Expense

LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 479,551	\$ 479,551
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	959,102	\$ 959,102
4	Staff Recommended Revenue, Per Schedule CSB-1	479,551	\$ 517,202
5	Subtotal (Line 4 + Line 5)	1,438,653	1,476,304
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	479,551	\$ 492,101
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	959,102	\$ 984,202
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	959,102	\$ 984,202
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	182,229	\$ 186,998
15	Composite Property Tax Rate (Per Company Schedule C-2)	11.0379%	11.0379%
			\$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 20,114	
17	Company Proposed Property Tax	21,173	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (1,059)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 20,641
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 20,114
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 526
22	Increase to Property Tax Expense		\$ 526
23	Increase in Revenue Requirement		37,651
24	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.398134%

OPERATING INCOME ADJUSTMENT NO. 5 - TEST YEAR INCOME TAXES

LINE
NO.

DESCRIPTION

Calculation of Income Tax:

	Test Year
1 Revenue (Schedule CSB-11)	\$ 479,551
2 Operating Expenses Excluding Income Taxes	\$ 465,781
3 Synchronized Interest (L17)	\$ -
4 Arizona Taxable Income (L1 - L2 - L3)	\$ 13,770
5 Arizona State Income Tax Rate	6.5000%
6 Arizona Income Tax (L4 x L5)	\$ 895
7 Federal Taxable Income (L4 - L6)	\$ 12,875
8 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 1,931
9 Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -
10 Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -
11 Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -
12 Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -
13 Total Federal Income Tax	\$ 1,931
14 Combined Federal and State Income Tax (L44 + L51)	\$ 2,826

Calculation of Interest Synchronization:

15 Rate Base (Schedule CSB-13, Col. (C), Line 16)	\$ 421,336
16 Weighted Average Cost of Debt	0.00%
17 Synchronized Interest (L16 x L17)	\$ -

18	Income Tax - Per Staff	\$ 2,826
19	Income Tax - Per Company	\$ (1,045)
20	Staff Adjustment	\$ 3,871

RATE DESIGN

	Present	Company Proposed	Staff Recommended
Residential	\$ 40.00	\$ 45.68	\$43.24
Commercial	\$ 40.00 xSFE (See Note 1)	\$ 45.68 xSFE (See Note 2)	\$43.24 xSFE (See Note 2)

Effluent Sales (All Meter Sizes)

Charge per 1,000 gallons	\$ 2.00	\$ 0.23	\$ 0.23
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Note 1: If a commercial flat rate is necessary, it will be calculated for each commercial customer by dividing the expected design daily flow rate (as prescribed by the Ten State Standards) by one SFE (single family equivalent). One SFE will equal 262 gallons per day (the approved design flow rate per single family unit by ADEQ. The resulting factor will be multiplied by the approved residential flat rate to get the commercial monthly flat rate.

Note 2: One SFE is defined as 10 fixtures (sinks and/or toilets and/or showers, etc). The SFE for a commercial customer will be equal to the number of fixtures divided by 10. If the computed SFE is less than 1.0, the factor will be 1.0; which provides that a commercial customer pays no less than a residential customer.

Service Line Charge

	NT	Cost	Cost
<u>Service Charges</u>			
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Reconnection (Delinquent)	\$ 30.00	\$ 30.00	Cost (a)
Deposit	Per Rule	Per Rule	Per Rule**
Deposit Interest (Annual Effective Rate)	3.50%	3.50%	3.50%
Reestablishment (within 12 months)	Per Rule	Per Rule	Per Rule*
Deferred payment (per month)	NT	1.50%	1.50%
Late payment Penalty (per month)***	1.50%	1.50%	1.50%
NSF check	\$ 25.00	\$ 25.00	\$ 25.00
After Hours Service Charge (At the Customer's Request)	NT	\$ 35.00	\$ 35.00

* Number of months off the system times the applicable sewer charge.

** Per Commission Rule R14-2-603.B.7 and 603.B.3

*** Late payment charge based upon balance owing at the end of the billing cycle which is added to next bill.

NT = No Tariff

(a) Actual cost of physical disconnection and reconnection (if same customer) and there shall be no charge if there is no physical work performed.

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TYPICAL BILL ANALYSIS
Residential Service

	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Company	\$ 40.00	\$ 45.68	\$5.68	14.2%
Staff	\$ 40.00	\$ 43.24	\$3.24	8.1%